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Marketing to the digital consumer

Kierzkowski, Alexa, McQuade, Shayne, Waitman, Robert, Zeisser, Michael. **The McKinsey Quarterly**. New York: 1996., Iss. 3; pg. 4, 18 pgs

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Abstract (Document Summary)

Many marketers are waking up to the potential of the interactive consumer market, but few have yet figured out how best to leverage that potential. An analysis of 95 Fortune 500 consumer marketing companies with product- or service-related Web sites showed that most still treat interactive media like any other traditional marketing channel. The result is an uninspiring collection of applications which appear to ignore the unique characteristics of interactive media. Though digital marketing is still at an early stage, it is believed that it is an attractive proposition for many more consumer product or service categories than is typically assumed. A new business model is developed which incorporates 5 factors that are essential for success in digital marketing: 1. the need to attract users, 2. engage their interest, 3. make sure they return, 4. learn about their preferences, and 5. relate back to them with a personalized product or service. Examples from several industries show how different companies approach digital marketing.

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BOOM IN BIG FOOD BUSTING WAISTLINES; [FINAL Edition]

JULIA CALIFANO McCall's. **Palm Beach Post**. West Palm Beach, Fla.: Dec 12, 1996. pg. 1.FN

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Abstract (Document Summary)

It was bad enough when Mom pushed food on you. Now an entire industry is doing it. Virtually every fast-food chain entices you to "supersize" your meal (i.e., tack on a large order of fries and a soft drink) for just a few extra pennies. Meanwhile most of these establishments have added jumbo-size items, packed with ever-higher ratios of fat, to their already nutritionally dubious lineups.

Concession stands at sports stadiums urge you to indulge in jumbo chili dogs and nachos deluxe. And most sit-down restaurants serve portions that are two to four times as much as you should be eating, according to Jayne Hurley, senior nutritionist at the Center for Science in the Public Interest, a consumer group Pigging out becomes a new American pastime based in Washington, D.C.

Another factor: Beef prices are at a five-year low in the United States, which makes it possible for McDonald's to offer two Big Macs for less than $2, and if that's not enough, the chain is test- marketing a triple cheeseburger that contains three beef patties. But big food also has a lot of psychological appeal. It fits right in with this country's love of living large, [Nadine Pazder] notes.

Full Text (863 words)

Info box at end of text.

Psst. Don't look now, but some people out there are trying to make you fat.

If you don't believe it, just stop by a major chain restaurant for breakfast. You could order a healthful bowl of whole-grain cereal with fresh fruit and low-fat milk. But for half the price you can get a platter of eggs, home fries, bacon and sausage, plus a side of pancakes.

In an effort to appeal to Americans' appetite for value - and their belief that bigger is always better - the food industry is offering more food for less money than ever before. The result?

Portion sizes are raging out of control. And it's not only happening in restaurants. Giant servings have invaded fast-food franchises, concession stands, convenience stores, even home kitchens.

This is no small matter. Many experts cite megaportions, along with lack of exercise, as a major reason why the average adult weighs eight pounds more today than she did a decade ago and why, according to a Harris poll, a staggering 74 percent of Americans are over- weight.

It was bad enough when Mom pushed food on you. Now an entire industry is doing it. Virtually every fast-food chain entices you to "supersize" your meal (i.e., tack on a large order of fries and a soft drink) for just a few extra pennies. Meanwhile most of these establishments have added jumbo-size items, packed with ever-higher ratios of fat, to their already nutritionally dubious lineups.

Case in point: Soon after dropping its reduced-fat McLean Deluxe, McDonald's introduced its biggest burger yet - the Arch Deluxe (with 570 calories, it outranks the Big Mac).

At the same time Pizza Hut, inventor of the cheese-stuffed crust, rolled out its triple-decker pizza - a pie that manages to cram 1 1/ 2 days' worth of fat into four slices.

But huge portions are not limited to fast-food chains. Go to the movies and just try to order a small popcorn and soda. The clerk will eye you with curiosity and ask, "Don't you want to try a supercombo?"

Concession stands at sports stadiums urge you to indulge in jumbo chili dogs and nachos deluxe. And most sit-down restaurants serve portions that are two to four times as much as you should be eating, according to Jayne Hurley, senior nutritionist at the Center for Science in the Public Interest, a consumer group Pigging out becomes a new American pastime based in Washington, D.C.

Packaged food manufacturers have also jumped on the big food bandwagon. Nabisco recently introduced a version of the Fig Newton cookie that's nearly twice the size of the original.

Most disturbing of all, however, is the fact that giant food has muscled its way into the American psyche. Even when we prepare food at home (where we can control portion size), we overdo it.

"Consumers are so used to being served large portions that a normal one looks skimpy by comparison," says Kris Clark, director of sports nutrition at Pennsylvania State University. "When I show clients the size of a recommended serving of pasta - half a cup - their jaws drop in horror. Most people are eating six times that much."

What's more, chronic exposure to oversize food fosters the idea that we should eat not until we feel satisfied but until we're filled to the gills.

"Most of us no longer know the difference between feeling satisfied and feeling stuffed," says Nadine Pazder, outpatient dietician at the Morton Plant Hospital in Clearwater and a spokeswoman for the American Dietetic Association.

You can blame this national frenzy in large part on the economy. Competition in the food-service industry has dramatically increased in recent years, says Wendy Webster, a spokeswoman for the National Restaurant Association. Unprecedented numbers of fast-food and full- service restaurant chains are vying for your money. And what better way to win customers than to offer a good deal?

"Value is a persuasive selling tool right now," Webster explains. "People are tentative about spending money, and everyone is looking for a bargain."

Another factor: Beef prices are at a five-year low in the United States, which makes it possible for McDonald's to offer two Big Macs for less than $2, and if that's not enough, the chain is test- marketing a triple cheeseburger that contains three beef patties. But big food also has a lot of psychological appeal. It fits right in with this country's love

of living large, Pazder notes.

"We like big cars, big buildings, big boats - so why should it be any different with food?"

THE BIGGEST FOODS IN AMERICA

Here are some of the biggest - and most fattening - chain- restaurant items available.

Burger King's Double Whopper with Cheese: This packs a whopping 950 calories and has more fat than half a stick of butter.

TCBY's giant frozen yogurt: Eating this "healthy" snack - it has 1,027 calories - is like scarfing seven Twinkies.

Olive Garden's lasagna Classico Dinner: After downing its 1,010 calories, you should probably skip dessert - not to mention breakfast tomorrow.

Subway's 12-inch Spicy Italian Sub: This tub delivers 1,043 calories and more fat than four Snickers.

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E-Commerce

Wallys W Conhaim. Link - up. Medford: Jan/Feb 1998.Vol.15, Iss. 1; pg. 13, 3 pgs

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Abstract (Document Summary)

Very rapidly, electronic commerce has been migrating from business merely facilitated by online tools, such as catalog viewing or ad postings, to business conducted entirely online through the use of newer tools such as authentication, digital cash, and secure, encrypted transactions. The flat-rate pricing structure now prevalent for consumer online and Internet services is more conducive to electronic commerce than the usage-based pricing that prevailed in the past. Many analysts view electronic commerce as one of the most promising interactive applications, despite the fact that fear of privacy and security breaches has been a major inhibiting factor for consumers thus far. The US government is doing what it can to assure a strong position for US businesses in this burgeoning field.

Full Text (2948 words)

[Headnote]

Note: This is the first of a two-part series on electronic commerce, one of the key factors driving the Internet and online services. This piece provides an overview of trends. The second article, to appear next issue, will cover established and emerging players.

The term "electronic commerce" encompasses everything from consumer-oriented virtual storefronts and malls, to business-to-business applications such as supplier or client "extranets" and EDI (Electronic Data Interchange) to behind-the-scenes business functions like electronic payment systems and order management.

Malcolm Frank, writing in Strategy & Leadership, has a two-part definition of electronic commerce that points out the unique contribution and challenge of the online component to business. He says electronic commerce is (1) "the electronic exchange of information, goods, services and payments," and (2) "the creation and maintenance of

Web-based relationships," including the building of an engaging Web site, the maintenance of one-to-one customer preference information, and the creation of online communities.

Very rapidly, electronic commerce has been migrating from business merely facilitated by online tools, such as catalog viewing or ad postings that have been with us since the origins of consumer online services, to business conducted entirely online through the use of newer tools such as authentication, digital cash, and secure, encrypted transactions.

The venues have expanded, too-from proprietary consumer or business networks primarily in the U.S. to the Internet worldwide.

In fact, the commercialization and popularization of the Internet, which eliminate access, software, and cost barriers for vendors as well as users, were important factors in leading the way toward today's evolving global information infrastructure.

There are many more choices now, too. Companies involved in electronic commerce must decide whether to host their own operations using the many software packages now available to handle such functions as catalogs, shopping carts, and credit approvals, or to outsource to Web hosting companies that are in the business of linking with the growing number of processing networks and that can keep up with the latest bells and whistles.

This decision is very specific to each potential online marketer. It depends on goals, internal technical capabilities and investment, overall priority, and relative cost. Sometimes companies begin by developing their own Web sites and move them to external hosting facilities when they expand or when security becomes a consideration. Sometimes the process is reversed.

Trends

The flat-rate pricing structure now prevalent for consumer online and Internet services is more conducive to electronic commerce than the usage-based pricing that prevailed in the past. Early on, CompuServe recognized that its per-minute pricing was a disincentive to shopping and arranged for its merchants to subsidize users' online shopping time. Later, Prodigy was built on the assumption that shopping would be a great convenience to its busy members and the service was designed to include many shopping opportunities as part of its basic service.

The market for Internet commerce took a major leap with the advent of browsers like Mosaic, and later Netscape Navigator and Microsoft Explorer, which allowed for easy access to graphics. The subsequent standardization of access to World Wide Web pages and easy point-and-click navigation meant users would no longer have to have different sets of proprietary software to access different online services. The possibility of a seamless, interconnected global marketplace of goods and services became an instant nearreality and stimulated unprecedented interest in the business community.

The advent of the Internet has brought a revival of interest in EDI. According to a 1995 study by The Gartner Group, nearly 100,000 companies worldwide use some form of EDI, but a white paper prepared by CERFnet states that only 200 U.S. firms have fully embraced that standard.

There were barriers initially, of courseconcerns about security, fears of privacy breaches, an anti-commercial cultural bias on the Net rooted in outdated rules, transborder data flow restrictions, variations in currency, cost and speed of shipping, slow average transmission speeds, primitive graphics capacities at the user end, the cost and complexity initially of "putting up" pages, a small and uncertain market, lack of understanding about interactive media, and limited success models.

How things have changed! With time, major new investments in software development and the almost meteoric growth in online usage, many of these barriers are being overcome.

While developing Internet storefronts and participating in malls are becoming key components of companies' electronic strategies, consumer online services are still important venues for transactions. Until recently, these were the places where transactions were most secure and where merchants could most easily enter the online marketplace.

With more than 10 million members, America Online is the most important single online marketplace. The company has recently changed its strategy toward vendors, now charging them "rent" for their storefronts in an effort to develop new revenue streams and discontinuing its former practice of taking "apiece of the action" on transactions. The latter is considered by some to inhibit the development of trade.

The browsers and the search engines, which also aggregate significant audiences before dispersing them to their desired destinations, are also playing important roles in the new electronic commerce environment.

CompuServe, in an effort to capitalize on its traditional appeal to small business users, has launched Business Web, a turnkey service that allows a CompuServe business member to develop a multi-functional business Web site in less than two hours.

Numbers

Many analysts view electronic commerce as one of the most promising interactive applications, despite the fact that fear of privacy and security breaches has been a major inhibiting factor for consumers thus far.

While in 1996 a USA Today survey found a full 95 percent of U.S. adults unwilling to give out their credit card number online, online sales in 1996 still totaled $1 billion, according to Jupiter Communications, up more than 50 percent from 1995. Some 31 percent of respondents in a survey of I,100 Web-based businesses cited in The Wall Street Journal at the end of 1996 claimed to be profitable.

In Canada this year, a survey taken by AC Nielsen found 84 percent of respondents reluctant to use a credit card online and over half who had never clicked on a banner ad.

A September 1997 survey by Phase 5 Consulting Group and Opinion Research and reported by NUA Ltd. found that the number of people actually purchasing online had not increased in two years, remaining at 15 percent of online users, despite the fact that access to online services had increased from 11 percent of the working community to 25 percent over the same period.

Business-to-business sales are currently driving the electronic commerce market. By 1996, 30 percent of business subscribers used the Internet to buy goods and services, up from 24 percent in 1994, according to a CommerceNet/Nielsen study. According to Cowles/Simba Information, business-to-business Web and online sales totaled almost $570 million in 1996, followed by $196 million in online sales of computer products and almost $155 million in consumer products.

Individual investor services are a huge growth area for electronic commerce. Cowles/ Simba estimates that about 2 million people subscribed to these services in 1996, 57 percent higher than in 1995. Between 20 percent and 25 percent of subscribers to the leading services actually trade online.

A 1997 survey of U.S. companies by International Data Corporation found that the top problem in implementing Internet applications is lack of ongoing support staff, followed by integration with other systems and among multiple corporate online applications.

Some industry analysts expect commerce on the Internet to reach $200 million or more in the U.S. by the year 2000, but others project only $5 billion. Projections vary considerably not only in outlook, but in terms of how broadly the analysts define electronic commerce.

Electronic cash transactions alone are expected to reach $9 billion by 2000, jumping to $35 billion five years later, according to the financial research firm Killen & Associates.

Paul Kagan Associates, a media research firm, sees a 1200 percent change over the next 10 years until 2007, when Kagan projects that half of U.S. households will be using the Internet (50 million households) and electronic commerce will reach a modest $11.7 billion.

However, Walter Forbes of CUC International, quoted in Wired sees developments moving much more rapidly. He predicts electronic commerce will comprise a full onefifth to one-quarter of the mammoth $2 trillion projected for

retail and industrial sales only 10 years from now. The trends favor electronic sales, he says, because the costs of retail operations (real estate, personnel, etc.) are going up, while basic electronic costs (communications, databases, hardware, etc.) are going down.

The numbers hide a good deal of speculation and differing viewpoints about the nature of electronic commerce growth and its impact. For example:

Scott Cook of Intuit, interviewed for the ABA Banking Journal, said that people won't buy goods and services over the Net unless vendors also offer electronic sales and service. He feels that one of the great advantages for electronic commerce is its ability to reach customers when they have the need for help, which is not necessarily when places of business, such as banks, are open for walkin traffic.

Evan I. Schwartz, author of Webonomics, says consumers will shop online for "information-rich products."

Esther Dyson, president of EDventure Holdings, has said that a main impact of electronic commerce will be to reduce costs for consumers. Author of the newly published book Release 2.0, Dyson has also written that people will pay for relationships, for belonging to a desirable interest group, but are less motivated to pay for information per se.

Jurgen Spaanderman and Dimitri Ypsilanti, writing in the OECD Observer, point out that electronic commerce will spur the need for more broadband networks and increasingly rapid convergence of computer, broadcasting, and communications technologies. The successes of PC Flowers and 1-800Flowers prove that people will pay for reliability, convenience, quality, and price.

Government

Quite naturally, the U.S. government is doing what it can to assure a strong position for U.S. businesses in this burgeoning field. In July, 1997, President Clinton issued a "Framework for Global Electronic Commerce" (http://www.white house.gov), which calls for a duty-free environment, minimal regulation, and security for electronic commerce.

For the U.S. to benefit fully from electronic commerce, systems will have to be global. The administration is trying to convince foreign governments to follow its lead in not burdening the fledgling industry with excessive taxes and other barriers. Reports from the G7 Nations Electronic Commerce Policy Group indicate the U.S.' hands-off policy is bearing some fruit abroad.

Initiatives to tax Internet commerce in many states have been defeated by simultaneous lobbying from the Clinton administration and industry groups.

Meanwhile, the administration is strongly urging a "predictable" legal environment and economic safeguards through enforcement of copyright. In an effort to strengthen the position of U.S. companies and to protect data, the Commerce Department recently liberalized its restrictions on the export of secure versions of software from Microsoft and Netscape.

On the homefront, many departments in federal, state, and local levels of government have established electronic procurement systems, publicizing Requests for Proposals and encouraging contractors to respond online.

Industry

Industry has changed its position regarding government's role from initial fear that government taxation and restrictions would squelch the market to encouraging government to regulate more than it has thus far.

Companies have gotten together in associations to promote electronic commerce.

For example:

* The Commercial Internet Exchange (CIX) (http://www.cix.org) simply worked to guide the Internet as it expanded

from its initial R&D environment into the commercial realm and continues to follow relevant regulatory and legislative issues.

The Interactive Services Association (http://www.isa.net), the primary trade group for those active in the consumer interactive field, has an active Electronic Commerce Working Group.

CommerceNet (http://www.commerce. net), a nonprofit consortium of over 500 member companies worldwide, promotes electronic commerce, conducts research, educates its members and the public, and links to members' sites through its own. Alexandria, Virginia-based Data Interchange Standards Association educates and supports work in EDI.

Applications

While initially, most electronic commerce transactions closely matched the interests of the dominant use group-software and hardware purchased by computer enthusiasts and company IT departments-popular current applications are moving in five distinct directions:

(1) Conversion of large, informationintensive consumer markets such as tourism, banking, investing, catalog sales, etc., into self-service online relationship and transaction centers.

(2) Aggregation of smaller, geographically dispersed niche markets into online transaction specialty centers and destination locations, such as Virtual Vineyards (http:ll www.virtualvineyards.com) and Kosher Grocer (http://www.koshergrocer.com), and electronic malls, such as The Internet Mall (http://www.internetmall.com).

(3) Linking of corporate suppliers and customers through intranets, extranets, EDI and procurement systems.

(4) Provision of a service previously handled in-house by a Web outsource, such as travel planning or current awareness research.

(5) Opening new markets for companies and professionals in remote locations.

Electronic commerce is emerging as an important tool for rural economic development as small, specialized firms are able to find international customers they would not have found through direct mail or otherwise.

One of the plaguing realities of the state of the art in electronic commerce today is that while overall Internet usage, shopping, and number of orders and sales revenues are all on the rise, many of the online vendors have not been able to translate all this good news into profits. With so much available on the Net, larger marketers that can afford to promote their sites heavily on and off the Net and can offer significant discounts or convenience have a decided advantage. Strategies to lower the cost of entry to electronic business, to create destination locations, to "lock in" customers, create loyalty and a sense of community, and to filter offerings or make it easier on potential buyers to find items of interest are attempts to reverse the trend.

Those continuing to do well financially in electronic commerce are the growing number of intermediaries that supply the needed access, servers, software, support service, and promotional opportunities to aspiring online marketers.

Downside

There have been a few notable failures: Less than a year after it launched to much fanfare, World Avenue, IBM's shopping mall, closed its doors this June.

Nets, Inc., a venture founded by the former chairman of Lotus Development to create the Industry.Net marketplace for industrial buyers and sellers, declared bankruptcy about the same time, it was reported, because the market was growing more slowly than expected.

MCI Communications shut down its music retailing Web site at the end of 1996.

The Internet Company, one of the first companies founded to help other businesses conduct electronic commerce online and developer of such well-known sites as the Electronic Newsstand (http:// www.enews.com) and Media Central (http://www.mediacentral.com), went out of business itself in the middle of 1997.

Though definitely not failures, some of the most used transactional sites have yet to make a profit, including book megaretailer Amazon.com, even after selling over $30 million in books by mid-year.

Despite the obvious challenges of online retailing, some 20 percent of retailers already were offering online shopping by mid- 1997, and an additional 37 percent had plans to do so, according to a CSC study.

Changes

Even in its current early stage of development, electronic commerce has already profoundly changed the nature of conducting business. For instance:

E-commerce puts every firm in the information business. Companies, even manufacturing companies, must focus on providing their customers with much more information on their product and industry, while in the past the product and perhaps its service could stand on its own.

Relationships with customers are paramount. Online users expect interaction and responsiveness from companies with which they do business. From here on in, companies will have to invest much more than in the previous era in customer relations. Companies now have far more direct contact with their customers. They may eventually save on print materials, sales forces, and traditional merchandising, but they will have to invest more in customer relations and online service. The payoff for them will be far improved feedback loops and the ability to respond to both problems and needs.

Alliances are necessary to create links and destination locations. Electronic merchants must satisfy more than the customers' need to purchase their goods and services. They may need to tap into externally generated, up-to-date material on topics of customer interest (sports, outdoors hobbies, pets, etc.) to draw repeat visits. They need to tap into specialized expertise or tools others have developed.

The impacts are far-flung. Rod Newing, writing in the Financial Times, speculates that too much reliance on online information and less on the know-how of street sales forces may cause industrial clients to rely too much on price in decision-making.

Andrew Wycoff writes in the OECD Observer that traditional methods ultimately won't be able to compete with electronic systems in the marketing of intangibles such as travel, entertainment, and financial services. While e-commerce may boost productivity, he concludes, it may result in decreasing employment by reducing some heavily people-intensive middleman activity, such as retail sales, introducing new kinds of technologicallyintensive middleman roles such as payment systems, and creating new jobs in such fields as online service and new product development.

Indeed, the new thrust toward solving the information overload problem with personalized filtering systems, even in commerce applications, is one more recent example of this displacement trend.

Regardless of the successes and failures, most businesses are already being affected by the growth of electronic commerce in that they now de facto find themselves participating in a global network where distance is no longer a barrier and information has become a commodity.

[Author Affiliation]
Wallys W. Conhaim is a Minneapolis-based interactive services consultant, Link-Up's Internet columnist, and co-editor of Public Resources Online, a newsletter for users of state and local government information on the Net